

METHODOLOGY FOR THE MANAGEMENT OF THE FTSE ITALIA ALL-SHARE CAPPED INDEX



Borsa Italiana
London Stock Exchange Group



THE INDEX COMPANY

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SECTION 1

1.0 INTRODUCTION

- 1.1** This paper sets out the Ground Rules for the management of the FTSE Italia All-Share Capped Index. Copies of the Ground Rules are available from FTSE, Borsa Italiana and on the websites www.ftse.com and www.borsaitaliana.it, the rules will be available in English and Italian. In case of doubts, the English version should prevail.
- 1.2** The FTSE Italia All-Share Capped Index is designed to represent the performance of Italian companies listed on MTA market of Borsa Italiana, providing investors with a comprehensive Index which measure the performance of the major capital and industry segments of the Italian market.
- 1.3** FTSE Italia All-Share Capped Index is calculated in EUR.
- 1.4** Price and Total Return versions will be calculated for the FTSE Italia All-Share Capped Index. Price Index is calculated in real time. Total Return Index is calculated at the end of the day.

SECTION 2

2.0 STATUS OF INDEX

2.1 The FTSE Italia All-Share Capped Index is calculated in real time and may exist in the following states:

a) Firm

- I. The Index is being calculated during Official Market Hours (see Appendix A). No message will be displayed against the Index values.
- II. The Official Closing Prices for the FTSE Italia All-Share Capped Index will be the Official Closing Prices (see Appendix A).

b) Closed

When the index has ceased all calculations for the day, the message 'CLOSE' will be displayed against the Index values calculated by FTSE.

c) Held

During Official Index period, the Index has exceeded pre-set operating parameters and the calculation has been suspended pending resolution of the problem. The message 'HELD' will be displayed against the last Index value calculated by FTSE.

d) Indicative

If there is a system problem or situation in the market that is judged to affect the quality of the constituent prices at any time when the Index is being calculated, the Index will be declared indicative. The message 'IND' will be displayed against the Index value calculated by FTSE.

(e) Part

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message 'PART' to indicate that only a proportion of the securities prices are included. With the exception of the message 'PART', the index will continue to be calculated and displayed as if it were firm.

2.2 The official opening and closing hours of the FTSE Italia All-Share Capped Index is set out in Appendix A. Variations to the official hours of the Index will be published by FTSE.

2.3 The FTSE Italia All-Share Capped Index is calculated and published on all days when Borsa Italiana is open for trading.

SECTION 3

3.0 INDEX MANAGEMENT

3.1 FTSE is responsible for the operation of the FTSE Italia All-Share Capped Index. FTSE is maintaining records of the market capitalisation of all constituents and reserve shares and is making changes to the constituents and their weightings in accordance with the Ground Rules. FTSE is carrying out reviews and implement the resulting constituent changes as required by the Ground Rules.

3.2 Changes to constituent weightings are made by FTSE in accordance with the Ground Rules FTSE is responsible for publicising and keeping a record of all changes to constituent weightings. The weightings of constituents in the real time Index shall be used in the calculation of the end of day Index.

3.3 FTSE is also responsible for monitoring the performance of the FTSE Italia All-Share Capped Index throughout the day and will determine whether the status of each index should be Firm, Indicative, Held or Part (see Rule 2.1).

- A FTSE Italia Joint Executive Group is responsible for the set-up of FTSE Italia All-Share Capped Index ground rules.

3.4 Amendments and Exceptions

3.4.1 In the event that the FTSE Italia Joint Executive Group or any of those responsible for the operation and administration of the FTSE Italia All-Share Capped Index consider that an exception should be made to any of the Ground Rules, the issue must be brought to the attention of the FTSE Italia Joint Executive Group for a decision. If, however, the matter is urgent, the Chairman and Deputy Chairman are collectively empowered to authorise an exception on behalf of the FTSE Italia Joint Executive Group.

3.4.2 Changes to the Ground Rules can only be made by the FTSE Italia Joint Executive Group.

3.4.3 Material changes to the Ground Rules are announced after FTSE Italia Joint Executive Group's meeting at which they are agreed.

SECTION 4

4.0 ELIGIBLE SECURITIES

- 4.1** The universe of eligible constituents is all Italian shares that have a listing on MTA market of Borsa Italiana, subject to conforming to all other rules of eligibility, free float and liquidity.
- 4.2** Foreign shares with a listing on Borsa Italiana are eligible for inclusion in the FTSE Italia All-Share capped Index. Foreign shares whose only listing is on Borsa Italiana (exclusive listing) are considered as domestic.
- 4.3** Companies whose business is that of holding equity and other investments (e.g. Investment Trusts) which are assumed by the Industry Classification Benchmark as Subsector equity investment instruments (8985) and Non-equity investment instruments which are assumed by the Industry Classification Benchmark as Subsector non-equity investment instruments (8995) will not be eligible for inclusion. For further details on the Industry Classification Benchmark (ICB), please visit the FTSE website.
- 4.4** In case of companies with more than one class of shares listed, ordinary shares only are considered for inclusion in the Index. In case a company has only listed preferred (or savings) shares, they are eligible for index inclusion.

SECTION 5

5.0 INDEX QUALIFICATION CRITERIA

To be included in the index, a stock must pass free float and liquidity criteria.

5.1 Free Float

The entire listed equity capital of a constituent company is included in the calculation of its market capitalisation, subject to exclusion of treasury shares (independently from the size of their stake) and free float restrictions.

5.1.1 Free float restrictions (strategic holdings) include:

- a) All shareholders holding 5% or more of the shares outstanding of the specific share class.
- b) Legally binding control block (patti di sindacato): when their weight is 5% or more, all the individual shareholders with stakes less than 5% are excluded from the free float.
- c) Treasury shares are always excluded from the free-float, independently from the size of their stake.

5.1.2 The following are not considered as restricted free float even when their stakes are above the 5% threshold:

- a) Mutual funds and SICAV.
- b) Pension funds.

5.1.3 Free Float Bands

Free float restrictions are calculated using available published information. The initial weighting of a constituent in the index will be applied in the following bands.

If the free float is:

Less than or equal to 15%	=	see rule (5.1.4)
Greater than 15% but less than or equal to 20%	=	20%
Greater than 20% but less than or equal to 30%	=	30%
Greater than 30% but less than or equal to 40%	=	40%
Greater than 40% but less than or equal to 50%	=	50%
Greater than 50% but less than or equal to 75%	=	75%
Greater than 75%	=	100%

- 5.1.4 However, a company that has a free float greater than 5% but less than or equal to 15% will be eligible for the index providing the company's full market Capitalisation (before the application of any investability weight) is greater than USD 5bn. This does not apply to a company, which following a take-over offer, has a remaining free float of 15% or less.

5.1.5 Free float review

Underlying data for the calculation of free float is collected on an ongoing basis, and the detailed free float percentage as maintained by FTSE is updated accordingly. The primary source of shareholder information for Italian companies is CONSOB (Commissione Nazionale per le Società e la Borsa).

SECTION 5

5.1.6 Following the application of an initial free float restriction, a constituent's free float will only be changed if its actual free float moves to more than 5 percentage points above the minimum or 5 percentage points below the maximum of an adjacent new band. This 5 percentage points threshold does not apply if the change is greater than one band; therefore a movement of 10 percentage points for the bands between 20% and 50% and 25 percentage points for the bands between 50% and 100% will not be subject to the 5 percentage point threshold. The 15% limit in 5.1.4 will also not be subject to the 5 percentage point threshold. On a quarterly basis, all constituents free float are updated to the correct band.

5.1.7 **Corporate events and actions**

A constituent's free float will also be reviewed and adjusted if necessary upon identification of information which necessitates a change in free float weighting or following a corporate event. If the corporate event includes a corporate action which affects the index, any change in free float will be implemented at the same time as the corporate action. If there is no corporate action, the change in free float will be applied as soon as practicable after the corporate event.

5.2 **Liquidity**

5.2.1 Each share is tested for liquidity on a quarterly basis by calculation of its median daily trading per month. The median trade is calculated by ranking each daily trade total and selecting the middle ranking day. Daily totals with zero trades are included in the ranking; therefore a security that fails to trade for more than half of the days in a month will have a zero median trade.

5.2.2 Shares which do not turnover at least 0.025% of their shares in issue (after the application of any investability weightings) based on their median daily trade per month in ten of the twelve months prior to a full market review, are not eligible for inclusion in the Index.

5.2.3 An existing constituent which does not turnover at least 0.02% of its shares in issue (after the application of any investability weightings) based on their median daily trade per month in eight of the twelve months prior to a full market review, will not be eligible for inclusion in the Index.

5.2.4 Newly listed shares will become eligible for inclusion at the next quarterly review providing they trade a minimum of 20 days. They must turnover at least 0.025% of their shares in issue (after the application of any investability weightings) based on their median daily trade per month. New issues will have their liquidity assessed on a pro-rata basis.

SECTION 6

6.0 PERIODIC REVIEW OF CONSTITUENT COMPANIES

6.1 Review Dates

- 6.1.1 The FTSE Italia All-Share Capped Index will be reviewed on a quarterly basis in March, June, September and December using market data as at the close of the last trading day in February, May, August and November respectively. The meeting for the review of the constituents will be held on the Wednesday after the first Friday in March, June, September and December.
- 6.1.2 Changes to the FTSE Italia All-Share Capped Index will be implemented after close of business on the third Friday in March, June, September and December respectively. If any third Friday of these months is a holiday previous available closing day prices will be used.
- 6.1.3 FTSE will be responsible for publicising the outcome of the periodic review. Borsa Italiana notices (Avvisi di Borsa) will publish FTSE communications.

6.2 Steps for Conducting a Review

- 6.2.1 Eligible universe (refer to section 4) for the FTSE Italia All-Share Capped Index is all shares that have a listing on MTA market of Borsa Italiana.
- 6.2.2 Foreign shares are only eligible for inclusion FTSE Italia All-Share capped Index. Foreign shares whose only listing is on Borsa Italiana (exclusive listing) are considered as domestic (For foreign share eligibility please refer rule 4.2).
- 6.2.3 FTSE MIB Index consists of the 40 most liquid and capitalised stocks listed on Borsa Italiana (BIT) MTA selected by FTSE Italia Joint Executive Group
- 6.2.4 Other eligible stocks are then ranked in descending order by their full market capitalisation.
- 6.2.5 Top 60 shares ranked by full market capitalisation which qualify after the application of the liquidity and free floats screens are selected for FTSE Italia Mid Cap Index.
- 6.2.6 All other small shares outside the FTSE MIB Index and FTSE Italia Mid Cap Index which qualify after the application of the liquidity and free floats screens are included in FTSE Small Cap Index.
- 6.2.7 The FTSE Italia All-Share Capped Index comprises of all constituents in the FTSE MIB, FTSE Italia Mid Cap and FTSE Italia Small Cap indices.
- 6.2.8 Constituents are weighted by their investable market capitalization (Free float Adjusted).

6.3 Capping Methodology

- 6.3.1 The constituents of the FTSE Italia All-Share Capped Index are capped at the time of the quarterly reviews to reduce concentration for constituents that are considered overweighted in the index. The capping methodology is described in more detail in Appendix 'B'.

SECTION 7

7.0 CHANGES TO CONSTITUENT COMPANIES

7.1 New Issues

7.1.1 A stock will be added to the FTSE Italia All-Share Capped Index when the constituent is added simultaneously to the underlying Index i.e. FTSE Italia All-Share Index.

7.2 Deletions

7.2.1 If a constituent is removed from the underlying Index universe i.e. FTSE Italia All-Share Index, the constituent will also be removed simultaneously from the FTSE Italia All-Share Capped Index.

7.3 Suspension of Dealing

7.3.1 Where a constituent is suspended and it may remain in the Index universe i.e. FTSE Italia All-Share Index, the constituent will also remain in the FTSE Italia All-Share Capped Index.

7.4 Relisting of Suspended Constituents

7.4.1 If a constituent is relisted and added to the Index universe i.e. FTSE Italia All-Share Index, the constituent will simultaneously be added to the FTSE Italia All-Share Capped Index.

7.4.2 If the securities, on relisting, are deleted from the underlying Index universe i.e. FTSE Italia All-Share Index the constituent will also be removed simultaneously from the FTSE Italia All-Share Capped Index.

7.5 Mergers / Takeovers

7.5.1 Any change happening as an effect of a merger or takeover between constituents or between a constituent and a non-constituent in the FTSE Italia All-Share Index, the same will also be reflected simultaneously in the FTSE Italia All-Share Capped Index.

SECTION 8

8.0 CHANGES TO CONSTITUENT WEIGHTINGS

- 8.1** For the purposes of computing the FTSE Italia All-Share Capped Index and to prevent a large number of insignificant weighting changes, the number of shares in issue for each constituent security is amended only when the total shares in issue held within the calculation system changes by more than 10% on a cumulative basis.
- 8.2** Adjustments to reflect a major change in the amount or structure of a constituent company's issued capital are made before the start of the index calculation on the day on which the change takes effect (e.g. the Ex Date for a rights or Capitalisation issue) , for all cases where there is a placement guarantee. In case of absence of placement guarantee, adjustments are done once the closing of the corporate action is publicly announced. Announcements of corporate events, which are made after the close of the index calculation, are normally deemed to be made on the following day.
- 8.3** Changes of shares in issue not arising from corporate actions, amounting to less than 10% of the number of shares in issue are made quarterly after the close of business on the third Friday of March, June, September and December.
- 8.4** If accumulated changes in the number of shares in issue add up to 10% or more or when an accumulated share change represents USD 2bn of a company's total market capitalisation, they are implemented between quarters. A minimum of 4 days notice will be given to users of the index. WM/Reuters Spot Rates will be used to convert the market capitalisation into USD. The USD 2bn threshold may be adjusted annually in December by FTSE. If an adjustment is made, it will be applied for the first time at the next review in June of the following year.
- 8.5** All adjustments are made before the start of the index calculation on the day concerned unless market conditions prevent this.

SECTION 9

9.0 INDUSTRY CLASSIFICATION BENCHMARK (ICB)

9.1 Classification of Constituents within ICB Sectors

9.1.1 The classification of a constituent may change from time to time. The reassessment of the ICB Sector to which a constituent belongs will be made by ICB and implemented within the FTSE Italia All-Share Capped Index by FTSE.

9.1.2 Companies can appeal their ICB classification. Further information is available on www.icbenchmark.com.

9.2 Changes to Industry Classification of Constituents

9.2.1 Where a constituent is the subject of a merger, restructuring, or complex take-over which results in a constituent, or part of a constituent, being absorbed by another, the Sector classification of the resulting constituent(s) will be determined by ICB.

9.2.2 Any adjustment resulting from a change in a company's classification will be implemented at the same time that any relevant constituent changes are implemented in the index.

9.2.3 Periodic changes to the Industry classification of a company will be agreed and announced by ICB.

SECTION 10

10. INDEX CALCULATION

10.1 Prices

10.1.1 The FTSE Italia All-Share Capped Index will use the last price from actual trades on MTA electronic share trading platform, of the Borsa Italiana during Official Market Hours.

10.2 Calculation Frequency

10.2.1 The FTSE Italia All-Share Capped Index will be calculated in real-time and published every 15 seconds during their opening hours using real time prices.

10.3 Index Calculation

10.3.1 The FTSE Italia All-Share Capped Index will be displayed to two decimal points.

10.3.2 The FTSE Italia All-Share Capped Index is calculated using the following formula:

$$\sum_{n = 1,2,3,\dots,n} \frac{(p_{i_1}^n \cdot s_{i_1}^n \cdot f_{i_1}^n \cdot c_{i_1}^n)}{d}$$

Where,

n	=		The number of securities in the Index.
p _i	=	Price	The latest trade price of the component security (or the price at the close of the Index on the previous day).
s _i	=	Shares in Issue	The number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
f _i	=	Investability Weight	The factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. The Investability Weighting factor for each security is published by FTSE.
c	=	Capping Factor	The factor applied to each security to allow its weight within the index to be Capped, expressed as a number between 0 and 1 where 1 represents 100%, i.e. no Cap. The Capping factor is published by FTSE.
d	=	Divisor	A figure that represents the total issued share Capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share Capital of individual securities to be made without distorting the Index.

APPENDIX A: Opening and Closing Hours

Index Opening and Closing Hours

Index	Open	Close
FTSE Italia All-Share Capped Index	09:01	17:30*

Notes:

- * Subject to receipt of final closing prices.
- Timings are CET.
- The index will not be calculated when Borsa Italiana markets are closed.

APPENDIX B: Capping Methodology

The algorithm is applied to each constituent of the FTSE Italia All-Share Capped Index that requires capping.

$$\text{Constituent capping factor} = \frac{\left(\left(\frac{\sum (P^{n_1} \cdot S^{n_1} \cdot F^{n_1})}{I} \right) Z \right)}{cap_a}$$

- P = the official closing price of the uncapped security
- S = the shares in issue for each uncapped security
- F = the free float factor of the uncapped security
- I = percentage of the index represented by all uncapped constituents
- Z = percentage capping level
- cap_a = Uncapped investable market capitalisation of the constituent to be capped ($P * S * F$)

Capping is applied to the constituents of the FTSE Italia All-Share Capped Index by the following methodology:-

Stage 1

Any constituents whose weights are greater than 10% are capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

Stage 2

Following the application of Stage 1, if the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, the procedure moves onto Stage 3 below. Otherwise no further action is required.

Stage 3

- a) If more than one stock is capped at 10%, then weights of all subsequent constituents previously capped at 10% are changed in accordance with the rules detailed below. For example, if the second largest stock is capped at 10% its weight will be reduced to 9% as given in b) below. The process is then continued from the relevant point in the steps below. Thus, if it is necessary to apply the provisions of Stage 3, only one constituent will have a 10% weight in the index.

APPENDIX B: Capping Methodology

- b) If the weight of the second largest constituent is greater than 9% the constituent's weight is capped at 9% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- c) If the weight of the third largest constituent is greater than 8% the constituent's weight is capped at 8% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- d) If the weight of the fourth largest constituent is greater than 7% the constituent's weight is capped at 7% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- e) If the weight of the fifth largest constituent is greater than 6% the constituent's weight is capped at 6% and the weights of the lower ranking constituents are increased correspondingly. Following these procedures if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- f) If the weights of the sixth largest constituent and any lower ranking constituents are greater than 4% those constituents' weights are capped at 4% and the weights of lower ranking constituents are increased correspondingly.

Stage 4

Following the application of Stage 3, the weights of each constituent are checked. If the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required. Firstly, if the largest constituents' weight has risen above 10% the weight is again capped at 10% and the weights of other constituents are adjusted accordingly. Then Stage 3 is repeated.

APPENDIX C: Contact Details

For further information and enquiries log on to: www.ftse.com

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